the institute for college access & success

PRIVATE LOANS: FACTS AND TRENDS

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Private loans are one of the riskiest ways to finance a college education. Like credit cards, they typically have variable interest rates. Both variable and fixed rates are higher for those who can least afford them — as high as 13% in June 2014.[1] Private loans are not eligible for the important deferment, income-based repayment, or loan forgiveness options that come with federal student loans. Private loans are also much harder than other forms of consumer debt to discharge in bankruptcy.

The following facts and figures reflect the most recent data available about undergraduate private loan borrowing and the evolving private loan market. The figures represent borrowing in one academic year (2011-12). For data on cumulative student debt (both federal and private loans) at graduation with a bachelor's degree, see *Quick Facts About Student Debt*, http://bit.ly/1lxjskr.

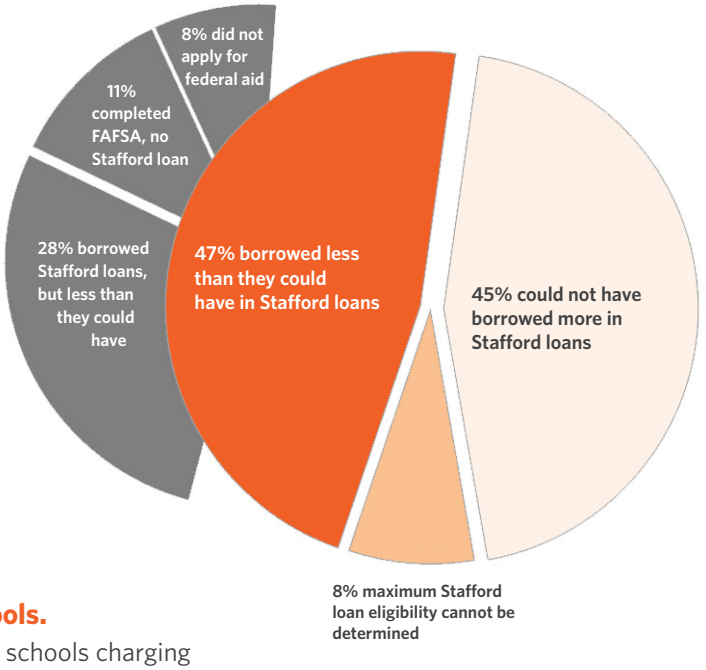
Private loan volume is increasing after earlier declines. Private loan volume has been rising since 2010-11. Data show that annual volume peaked at $18.1 billion in 2007-08 before the credit crunch, then decreased to $5.2 billion by 2010-11 before increasing to $5.5 billion in 2011-12 and $6.2 billion in 2012-13.[2]

Almost half of borrowers could be using more affordable federal loans.

Experts agree that students and families should exhaust all of their federal aid options before even considering private loans. However, almost half (47%) of private loan borrowers in 2011-12 borrowed less than they could have in safer federal Stafford loans:[3]

- 19% took out no Stafford loans at all. This includes: 8% did not apply for federal financial aid, and 11% did apply for federal aid (a requirement for Stafford loans) but did not take out a Stafford loan.
- 28% had Stafford loans, but borrowed less than they could have.

Private Loan Borrowers by Stafford Loan Usage



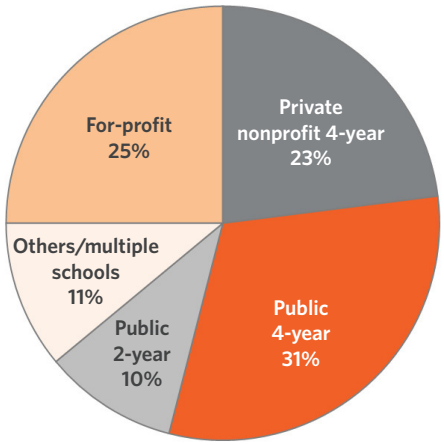
Almost half of private loan borrowers attend lower priced schools.

- In 2011-12, almost half (48%) of private loan borrowers attended schools charging $10,000 or less in tuition and fees.
- Although almost half of all private loan borrowers attended lower priced schools, private loan borrowers are disproportionately represented at higher cost schools. In 2011-12, four in 10 (43%) private loan borrowers attended schools that charge tuition and fees above $10,000, while only 19% of all undergraduates attended such schools.[4]

Private loan borrowers disproportionately attend for-profit and private nonprofit colleges. In 2011-12, for-profit colleges and private nonprofit four-year colleges had disproportionate shares of students with private loans.

- Students attending *for-profit* colleges comprised about 13% of all undergraduates, but 25% of those with private loans.
- Students attending *private nonprofit four-year* colleges comprised about 11% of all undergraduates, but 23% of those with private loans.
- The share of all undergraduates attending *public four-year* colleges (28%) was similar to the percentage of private loan borrowers who attend these schools (31%).
- Students attending *public two-year* colleges are least likely to take out private loans: they comprised about 38% of all undergraduates but only 10% of private loan borrowers.[5]

Private Loan Borrowers by Type of School



Almost 1.4 million undergraduates borrowed private loans in 2011-12. According to federal survey data available every four years, 6% of all undergraduates – 1,373,000 students – borrowed private loans in 2011-12. This represents a sharp decline from 2007-08, when 14% of undergraduates – 2,901,000 students – borrowed private loans as the market peaked before declining with the financial crisis. But the number and share of students borrowing private loans were higher in 2011-12 than in 2003-04, when only 5% of undergraduates – 930,000 students - borrowed.

Private loan borrowing by sector in 2011-12:

- At *for-profit* colleges: 12% of students had private loans, down from 40% in 2007-08.
- At *private nonprofit four-year* colleges: 12% of students had private loans, down from 26% in 2007-08.
- At *public four-year* colleges: 7% of students had private loans, down from 14% in 2007-08.
- At *public two-year* colleges: 2% of students had private loans, down from 4% in 2007-08.

Racial/ethnic differences in borrowing that emerged at the height of the private loan market had disappeared by 2011-12. In 2007-08, African Americans were more likely than other groups to take out private loans, in contrast to 2003-04 and 2011-12. There were no substantial differences in students' likelihood of borrowing private loans by race/ethnicity in 2003-04 or 2011-12. Since private loan borrowing rates by race/ethnicity are available only every four years, there are no public data on whether differential rates of borrowing are reappearing as the market expands again.

[1] For example, Wells Fargo advertised fixed rates from 7.49% to 13.34% for the Wells Fargo Student Loan for Career and Community Colleges; https://www.wellsfargo.com/student/loans/ and https://wfefs.wellsfargo.com/terms/todays_rates.jsp, accessed June 27, 2014.

[2] Volume data are for all undergraduates and are from Table 2A, *Trends in Student Aid 2013*. The College Board. http://bit.ly/Hjw2S6.

[3] While 47% of private loan borrowers took out less than they were eligible for in Stafford loans, 45% reached their individual annual and/or cumulative Stafford limit or were ineligible for Stafford loans because they attended less than half-time. Eligibility cannot be determined for the remaining 8% of borrowers. These figures were revised in June 2014 to reflect changes in underlying data made by the U.S. Department of Education. Individual borrowers' Stafford eligibility for 2011-12 varied by class level, dependency status, and college costs after financial aid. Some students who took out less than they were eligible for may have been ineligible for at least part of the award year because they failed to make satisfactory academic progress, previously defaulted on a federal student loan, or for various other reasons, but data limitations prevent us from quantifying the share of students who take out less than their annual limit for these reasons.

[4] While 48% of private loan borrowers attended lower-priced schools charging $10,000 or less in tuition and fees, 43% attended higher-priced schools, and cost data are not available for the remaining 10% of borrowers. Among all undergraduates, 72% attended lower priced schools, 19% attended higher priced schools, and cost data are not available for the remaining 8%. Due to rounding, figures do not add up to 100%.

[5] Nine percent of all undergraduates and 11 percent of private loan borrowers attended other types of schools or multiple schools in 2011-12. Due to rounding, figures do not add up to 100%.

Source: Unless otherwise noted, the figures in this fact sheet are based on TICAS' analysis of data from the U.S. Department of Education's National Postsecondary Student Aid Study (NPSAS), a comprehensive nationwide survey conducted every four years. Figures reflect the latest data available as of April 2014. These figures represent borrowing that took place in a single academic year, not over the entire time a student was in school. Calculations only include undergraduates who are citizens or permanent U.S. residents and attend colleges in the 50 states, or the District of Columbia. The term "private loans" is defined here to mean bank and lender-originated loans only. Some states and colleges offer non-federal student loans as well, but less than one percent of undergraduates in 2011-12 received such loans.

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